Ref: 26021

03 June 2026

Electricity Authority | Te Mana Hiko

By email to:
distribution.feedback@ea.govt.nz

Tēnā koutou,

REFORMING NETWORK PRICING FOR DISTRIBUTED GENERATION TO PROMOTE EFFICIENT INVESTMENT

Unison Networks Limited (Unison) and Centralines Limited (Centralines) are consumer-owned electricity distribution businesses serving communities in Hawke's Bay, Taupō, Rotorua, and Central Hawke's Bay. We appreciate the opportunity to cross submit on the Electricity Authority's consultation paper, Reforming Network Pricing for Distributed Generation to Promote Efficient Investment.

As consumer-owned entities, we operate in the best interests of the communities we serve. Guided by our vision, and values, we strive to deliver economic benefits to both our customers and community shareholders, while championing a sustainable energy future. We are committed to maintaining the right balance between keeping electricity affordable and making strategic investments that secure the long-term reliability and resilience of our network. In all aspects of our operations, we place strong emphasis on meeting industry compliance requirements, ensuring we uphold all relevant standards. This approach not only supports New Zealand's transition to new energy solutions but also enables our communities to access cleaner, smarter, and more flexible energy options, now and for generations to come.

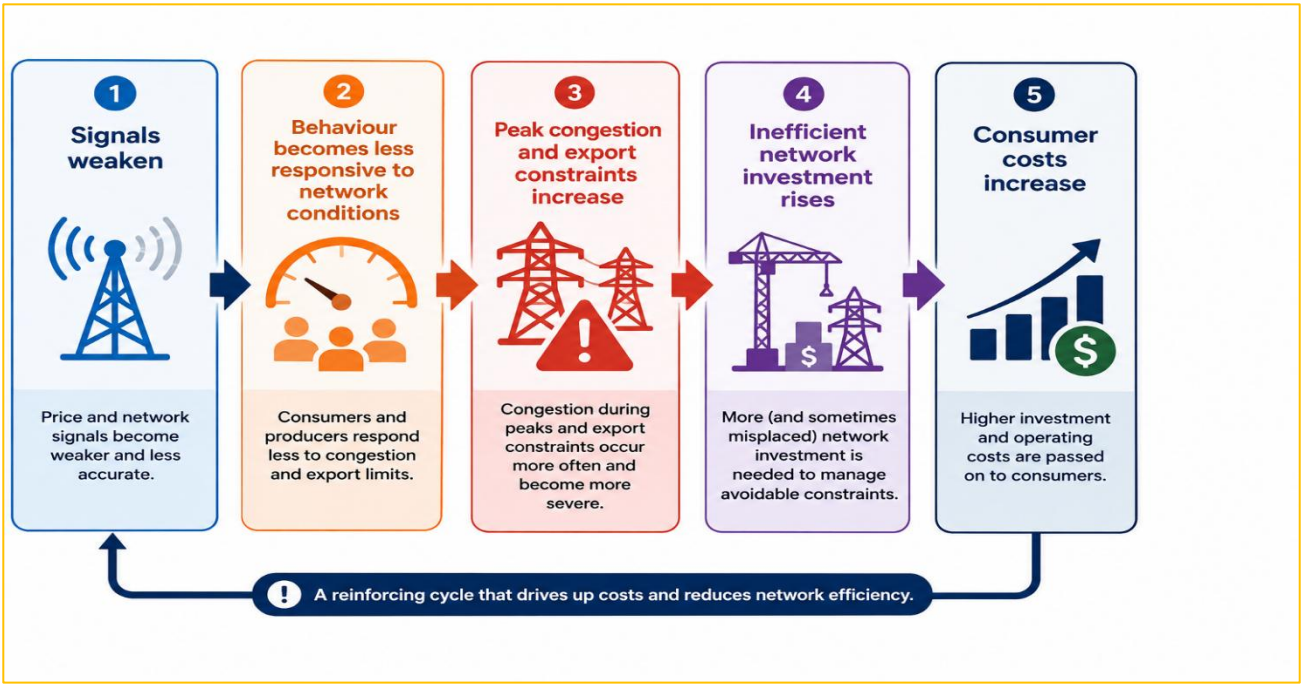
EXECUTIVE SUMMARY

Unison supports the Authority's work to improve transparency and consumer outcomes in distributed generation (DG) pricing. The consultation and broader feedback raise two distinct directions that, if applied broadly, risk weakening cost-reflective pricing and distorting efficient investment signals, increasing long-term costs for consumers:

- Expanding standardised injection pricing beyond the mass market (including medium-sized customers), on the basis that broader eligibility is required to encourage DER investment; and
- Simplifying DG pricing by limiting charges to narrow incremental costs, favouring symmetry between offtake and injection pricing, and relying primarily on simple TOU structures.

Efficient outcomes require differentiation across time, location, and scale, anchored in cost causation and value recognition. Where pricing becomes overly standardised or simplified, price signals weaken and lead to inefficient outcomes:

Figure 1: Shows weak signals leading to higher costs.



Unison supports an approach that preserves clear segmentation, enables fit-for-purpose pricing as impact increases, and applies a strong proportionality test.

Injection pricing should not be viewed in isolation, but as one component of the broader set of tools used to manage network conditions and customer behaviour. Its primary role is to support efficient system outcomes by reinforcing, rather than substituting for, wider flexibility mechanisms, including flexible connections and dynamic pricing approaches.

Unison supports the ENA cross submission, which similarly emphasises the importance of cost-reflective pricing, clear segmentation within network pricing frameworks.

2. Standardisation vs Efficiency: Why broader access is not the right default

A commonly advanced position is that excluding medium-sized customers from default injection payments may under-incentivise DER investment, and that standardised injection tariffs should be expanded to a broader set of customers.

2.1 Efficiency requires differentiation, not expansion of standardisation.

This issue should be considered within the context of the broader set of tools used to manage network conditions and customer interaction with the network. Injection pricing is one component of this framework, supporting efficient customer response to network signals.

Unison considers that expanding standardised injection pricing beyond the mass market risks applying uniform assumptions to inherently heterogeneous connections. Medium and larger customers typically:

- have more variable offtake and injection profiles;
- interact more materially with local network constraints; and
- can create higher and more complex system impacts (including local congestion and reverse power flow).

This is particularly important for connection arrangements that rely on customers actively managing their demand in response to network conditions. Efficient outcomes depend on pricing frameworks that can appropriately reward this behaviour.

More standardised approaches reduce this differentiation, undermining the incentives required to support these connection arrangements.

Applying standardised assumptions in this context risks:

- weakening cost-reflective signals;
- mispricing network impacts; and
- distorting investment decisions, including technology choice, sizing, and operation.

Efficiency therefore requires standardised approaches where system impact is low, transitioning to fit-for-purpose, cost-reflective frameworks as customer impact on the network increases.

2.2 Eligibility thresholds are a practical boundary and protect framework integrity.

Eligibility thresholds serve a crucial function as a practical boundary between:

- standardised, low-impact customers (mass market); and
- higher-impact connections requiring risk-managed arrangements and stronger locational/time differentiation.

Blurring or expanding thresholds without a clear boundary risks:

- undermining regulatory clarity;
- creating boundary arbitrage (customers restructuring to qualify for standardised outcomes); and
- weakening the efficiency and fairness of the overall pricing framework.

This is not primarily an “access” issue — it is a design integrity issue. Clear segmentation supports both efficiency and scalable customer response.

This is particularly relevant where EDBs already have the capability to design connection and pricing arrangements that reflect local network conditions. Prescriptive or standardised approaches risk constraining these tools, limiting the ability to deliver efficient, locally responsive outcomes.

Increasing thresholds for standardised injection pricing risks undermining efficient uptake of customer responsiveness. Extending standardised signals into higher-impact segments applies averaged assumptions that will over- or under-signal the value of injection at a given location and time. This weakens alignment with actual network conditions and reduces incentives for customers to actively manage their impact on the network.

2.3 Long-term consumer benefit is better served by targeted, cost-reflective signals.

Pricing signals play a critical role in encouraging customers to respond to network conditions. However, pricing alone is insufficient and must operate alongside other mechanisms.

Where pricing frameworks cannot differentiate based on customer behaviour, they limit the ability to recognise and reward responsive behaviour, reducing participation in these arrangements.

Long-term consumer benefit is best achieved through:

- targeted, cost-reflective signals that reflect actual network conditions; and
- complementary mechanisms that reward customers where their actions provide demonstrable system value.

A combination of:

- price signals (e.g. TOU and, where appropriate, more granular locational and time-based components); and
- targeted mechanisms (e.g. connection arrangements, contractual structures, or tailored approaches for higher-impact customers)

is required to support efficient DER investment and enable customers to respond to network needs.

Expanding eligibility to standardised tariffs risks diluting signal strength and reducing incentives for higher-value responsive behaviour.

2.4 A clear transition pathway is required: uniform → fit-for-purpose.

Pricing should evolve along a clear trajectory from standardised approaches for low-impact, mass-market customers to fit-for-purpose, cost-reflective arrangements for higher-impact connections.

Extending standardised approaches beyond this boundary cuts across that transition and leads to inefficient outcomes.

This is particularly evident in the context of threshold settings. Increasing thresholds for standardised injection pricing extends uniform price signals into segments where network impacts are more variable and materially different. In doing so, it applies averaged assumptions that do not reflect local network conditions.

As a result, signals become misaligned with actual network use, limiting their effectiveness and weakening incentives for customers to manage their demand or injection in response to those conditions.

More broadly, extending standardised approaches into higher-impact segments constrains the ability to differentiate based on network conditions and customer behaviour. This reduces the effectiveness of pricing as a tool to guide efficient outcomes and increases the risk of inefficient investment and network utilisation.

Figure 2: The diagram below reflects the transition from standardised to fit-for-purpose pricing, and the risks introduced where thresholds extend standardised approaches beyond their intended scope.

3. Simplified approaches to injection pricing are incomplete

A competing approach seeks to simplify injection pricing and focus primarily on recognising generator benefits, often positioning pricing as the primary mechanism for enabling DG uptake.

Unison considers this framing is incomplete. Injection pricing is best understood as a subset of the broader flexibility framework and should be designed to support efficient system outcomes alongside other tools, rather than operate as a standalone mechanism.

In doing so, it risks overlooking how pricing interacts with other tools already available to EDBs to enable flexibility, and how overly simplified pricing can constrain their effectiveness.

3.1 Cost causation must remain central to avoid cost shifting.

Limiting charges to narrow incremental costs risks under-recovery of network costs and shifts residual costs onto other consumers, including those without DER.

Networks are shared assets. Efficient pricing must ensure users contribute to:

- incremental costs; and
- an appropriate share of common/shared costs associated with the provision and use of network capacity and services.

Disconnection of pricing from cost causation creates cross-subsidy risk and undermines efficiency.

3.2 DG impacts are context-specific: it can defer or drive investment.

Distributed generation can provide system benefits in some circumstances, including deferral of investment. However, DG can also drive network investment, particularly where:

- injection peaks coincide with local constraints;
- reverse flows increase congestion or voltage management requirements;
- connection scale is significant; or
- injection timing does not align with system need.

The impact varies by location, scale, and timing. Assuming uniform benefits will misprice impacts and distort investment signals. **The right question is not "Is DG beneficial?" but "When and where does DG create value or cost on the network?" Efficient pricing must reflect that reality.**

Recognising this variability is critical to enabling efficient customer response to network conditions, as it ensures that signals and mechanisms are targeted to where they deliver the greatest system value.

3.3 Injection and offtake are not equivalent: symmetry risks mispricing network impacts.

Offtake and injection are not equivalent from a network perspective. They can drive:

- different peak conditions;
- different local constraints; and
- different operational and investment requirements.

Symmetrical pricing risks overstating injection value or under-recognising injection-driven constraint costs, depending on local conditions and timing.

Symmetry should not be presumed, as injection and offtake can have different system impacts.

3.4 Capacity charges are necessary to reflect use of scarce network capacity.

Network capacity is scarce and valuable. Both offtake and injection rely on access to this capacity, and capacity constraints are a primary driver of network investment.

Without capacity-based components (where appropriate):

- peak-driven investment drivers are not clearly signalled;
- costs risk being under-recovered from those contributing to them; and
- incentives weaken for customers to manage their contribution to peaks and constraints.

Capacity charges are therefore necessary in many contexts to reflect ongoing use of constrained network capacity and to support efficient cost recovery and behaviour.

3.5 TOU is a useful baseline but insufficient to capture localised constraints.

TOU pricing can provide an effective baseline, but it is inherently blunt and may not reflect:

- feeder- or zone-specific constraints;
- local injection congestion; or
- conditions where the "peak" differs materially across locations.

For larger or higher-impact connections, more tailored or granular approaches may be required to reflect local constraint conditions and preserve efficient investment signals.

3.6 Shared assets require balanced cost recovery across users.

Assigning residual costs solely to offtake consumers creates cross-subsidy risk and weakens cost-reflective pricing.

A balanced approach is required to ensure:

- costs are recovered from those who use and drive network costs; and
- pricing remains stable, defensible, and aligned with long-term consumer benefit.

Simplified, incremental cost-only approaches risk cost shifting and distorted investment signals.

4. Implementation and proportionality

Across the issues raised, Unison considers it essential that any intervention is both proportionate and implementable. Implementation costs and complexity are material and can displace effort from delivering flexibility and improving customer outcomes.

This is particularly important given that injection pricing sits within a broader set of tools used to manage network constraints and utilisation. Poorly targeted intervention risks weakening more effective mechanisms that align customer behaviour with network conditions.

Unison recommends applying a proportionality test: Do the incremental benefits of the intervention exceed the combined costs of implementation, reduced uptake (due to weaker signals), and lost innovation from constrained design options?

Where this threshold is not clearly met, the default approach should be to:

- adopt principles-based settings and guardrails;
- enable phased implementation; and
- support fit-for-purpose approaches for higher-impact connections.

5. Overall Position and Recommendations

Unison supports an approach that:

- Recognises injection pricing as one component of a broader set of tools used to support efficient network outcomes;
- Preserves differentiated, cost-reflective signals;
- Recognises both cost causation and value and avoids incremental cost-only models that create cost shifting;
- Applies a strong proportionality and implementation test, favouring phased and targeted measures over broad standardisation.

6. Conclusion

The issues raised in submissions point to a clear tension between simplicity and scalability on the one hand, and efficiency and cost-reflectivity on the other. While there is merit in improving transparency and accessibility, this should not come at the expense of the core principles that underpin efficient network pricing.

Injection pricing should be understood as one component of a broader set of tools used to manage network conditions and customer behaviour, rather than a standalone solution. Its effectiveness depends on how well it integrates with other mechanisms, including flexible connections and more dynamic pricing approaches.

Expanding standardised injection pricing or adopting simplified, incremental cost-only approaches would weaken cost-reflective signals and reduce the effectiveness of flexibility as system impacts increase.

Unison's position is that the framework must maintain a clear line between:

- standardised approaches for low-impact, mass-market customers, and
- fit-for-purpose, cost-reflective arrangements for higher-impact connections.

This segmentation is essential to preserving pricing integrity and avoiding cross-subsidies.

A durable solution will require:

- differentiated, cost-reflective signals;
- a combination of pricing and targeted flexibility mechanisms; and
- a proportionate, implementation-aware approach that enables innovation rather than constraining it.

Standardised pricing that limits differentiation will directly constrain the development of flexible pricing and connection arrangements, reducing the ability to reward customers who can actively manage their impact on the network.

Pricing must reflect how and where the network is used. Where this link is weakened, efficient customer response is displaced by inefficient investment.

We would welcome continued engagement with the Authority as these reforms develop further. No part of our submission is confidential.

Ngā mihi nui,

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[redacted]